

Office for  
**Budget  
Responsibility**

12 July 2010

*Dear Chancellor*

The Terms of Reference we agreed for the interim Office for Budget Responsibility stated that we would provide you with advice on appropriate arrangements for establishing the OBR on a permanent, statutory basis. We enclose our advice on this matter.

We have drawn from our experiences of leading the interim OBR's work for the Budget. We have also consulted a number of interested parties whose views have informed this advice.

Our advice is not a definitive blueprint for the permanent OBR. There are many details which you will need to consider and resolve in the coming months. And you will want to take account of the views of other experts and interested parties, for example the Treasury Select Committee.

We have set out our general reflections, beginning from the first principle of considering the purpose of the OBR. We go on to consider the tasks the OBR should undertake, and how it should perform them. In some cases we make specific recommendations and in summary these are:

- the OBR should produce forecasts for the economy and public finances;
- forecasts should be produced at least twice a year and include the official Budget forecast;
- the OBR should undertake broader analysis of fiscal sustainability;
- the technical independence of the OBR should be enhanced through the transfer of analytical capacity from the Treasury to the OBR;
- the OBR should employ a mix of external recruits and staff from the Treasury to produce forecasts and analysis;
- Parliament should have a role in the appointment of the members of the Budget Responsibility Committee; and

- the OBR should be located outside the Treasury building.

We believe that the OBR is a very welcome development. It will inevitably take time to settle in, but we are confident that it will play a substantial part in enhancing the quality of fiscal policy-making.



Alan Budd



Geoffrey Dicks



Graham Parker

## Establishing the Office for Budget Responsibility

### Introduction

#### Terms of Reference

1. The Terms of Reference (TOR) for the interim Office for Budget Responsibility (OBR) agreed on 8 June included the following:

*"The interim OBR will provide advice to the Chancellor on the appropriate arrangements for the permanent OBR."*

*"This advice should include the interim OBR's recommendations for the permanent OBR's roles and responsibilities, aims and objectives, and appropriate size, status and funding."*

2. This paper is our response to those terms. In some cases we provide firm recommendations but in other cases we describe options without indicating our choice between them.
3. Where relevant we draw on the experiences of the interim OBR. We also draw on to the points made at the seminar that we held on 17 June.<sup>1</sup> A broad range of academics, policy advisers and city commentators attended it. A report of the meeting is attached.

#### What is the OBR for?

4. A brief summary of the task we have set ourselves in writing this paper would be to provide answers to the questions:
  - a. What should the OBR do?
  - b. How should it do it?
5. However there is possibly a "why?" question which should be answered before the "what?" and "how?" questions. Why has the OBR been established? More narrowly, what defects in the previous system is the establishment of the OBR intended to redress? The answer to that question helps us to answer the questions about aims and objectives and roles and responsibilities.
6. You have provided answers to this question in *Reconstruction: Plan for a strong economy* and in lectures and speeches. They include pre-election statements which provide a helpful starting point. An appropriate quotation can be taken from *Reconstruction*:

*"We need to entrench fiscal responsibility in the same way that inflation targeting has helped to entrench lower and more stable inflation in many countries around the world. This means addressing the flaws inherent in the*

---

<sup>1</sup> "Establishing the Office for Budget Responsibility: planning for an independent fiscal institution"

*fiscal rules with a completely new fiscal framework, removing political influence from official forecasts, and developing a long-term strategy for living within our means."*

7. The objective of removing any possibility of political influence from official forecasts has clearly been a primary motive for establishing the OBR and much of this paper is devoted to discussing how this objective can be met and be seen to be met. At a later point in *Reconstruction* the tasks of the OBR are defined in broad terms:

*"First, an independent fiscal council would be focused entirely on the budget balance and the sustainability of the public finances. The other aspects of fiscal policy – the level and composition of government spending, tax rates and the structure of the tax system – are rightly political issues and must remain the exclusive responsibility of democratically elected politicians."*

*"Second, even within their remit of the budget balance and the sustainability of the public finances, a fiscal council would not have the delegated authority to loosen or tighten fiscal policy in the in the same way that independent central banks can raise or lower interest rates. Decisions on the balance of tax and spending must be taken by democratically accountable politicians. The power of a fiscal council stems from its independence, credibility and ability to create strong political pressure for responsible fiscal policy, not from any executive authority over fiscal decisions."*

8. Finally, in your Budget statement on 22 June you stated that:

*"We have established the Office for Budget Responsibility as a permanent improvement to economic policy making and the transparency of government."*

9. While these statements give a sense of the OBR's purpose and define boundaries (or perhaps no-go areas) there remain some outstanding questions about the OBR's specific role. The following chart may illustrate the difficulty. It reflects the facts that fiscal sustainability is an intermediate rather than a final objective and that decisions about the speed at which it should be achieved and the means of achieving it involve technical as well as political questions.

10. The diagram below sets out the levels of objectives involved:



11. Each level describes one, but only one, of the factors that contribute to the objective above it. Well-designed fiscal policy includes both micro-economic and macro-economic aspects. Macro-economic aspects include fiscal sustainability and the choice of the fiscal mandate.

## Building on the interim OBR

12. The interim OBR, as agreed in the Terms of Reference, has mainly concentrated on the lowest level. It produced pre-Budget and Budget forecasts. It also, as agreed, provided a judgement on whether the Government's policy was consistent with a better than fifty per cent chance of achieving your fiscal mandate; but that can be seen as a by-product of the forecasts.
13. In addition, we undertook initial work on longer term and off-balance sheet elements of sustainability. The Terms of Reference included the following:

*"The interim OBR has a role in beginning an independent assessment of the public sector balance sheet and fiscal sustainability, including assessing the impact of ageing, public service pensions and PFI contracts."*

14. We described preliminary work on this subject in our pre-Budget forecast and we assume that you will wish this work to continue. That work also involves forecasting, extended through time and to a wider range of public sector obligations.
15. We did not give you advice on the mandate (in terms of definition and date for achievement). Treasury officials provided this advice and the decisions were for you and your colleagues.
16. If we take fiscal sustainability, which helps to provide a well-designed fiscal policy, as the unifying theme of the OBR's work, the question is whether other aspects of sustainability should also fall within its remit. For example, research and analysis on macroeconomic issues and further analysis of the public sector balance sheet would all contribute towards well-designed fiscal policy, and seem to fall within the OBR's remit. There are also wider questions of the design of fiscal policy and whether the OBR should comment on fiscal rules, including the mandate. We ask whether you believe that the OBR should also be able to consider and provide advice on these wider questions.
17. The following sections of this report discuss these activities in turn, starting with forecasting. In each case we discuss the tasks of the OBR and the means by which they should be performed. We then go on to discuss issues relating to the OBR's governance and institutional status.

## **What the OBR should do**

### Economic and fiscal forecasting

18. Given your emphasis on the importance of removing the production of forecasts from any possible political interference, we assume that the production of forecasts will continue to provide the core of the OBR's activities.
19. The tasks of the interim OBR and the way in which they were performed were exceptional and driven by the commitment to produce the emergency Budget and to have the OBR in place, in interim form, in time to provide forecasts for the Budget and a judgement on the chance of meeting the fiscal mandate. Neither the definition of the

tasks nor the methods used to perform them need be considered as binding precedents for future activities.

20. In *Reconstruction* a process was described which envisaged the publication of a pre-Budget fiscal forecast, including a judgement of the sustainability of the public finances against the mandate. The judgement would include a statement of how much loosening or tightening of fiscal policy would be necessary by the end of the forecast period for the mandate to be met. The OBR's next report would take account of the decisions taken in the Budget.
21. For the emergency Budget a rather different process was followed. A pre-Budget forecast was published eight days before the Budget. At that stage no mandate had been announced. A further forecast, incorporating all the policy changes, was produced with the forecast. To incorporate the effects of policy measures on the forecasts, we certified the Government's policy costings, which reflect the direct impact of policy changes, and made judgments as to the indirect effects of policy changes on the economy and the public finances. In the same document the OBR provided its judgement on the chance of meeting the fiscal mandate, which was announced in your Budget speech.
22. The first question therefore is whether you wish to continue with a version of the procedure used for the emergency Budget (either with or without a separate pre-Budget forecast) or to revert to something closer to the procedure outlined in *Reconstruction*.
23. Our view is that having established the principle that Budget forecasts are produced by the independent OBR the practice should continue. We believe that the same principle should apply to any fiscal event that could introduce policy changes.
24. As a minimum requirement, the permanent OBR will need to produce one Budget forecast each year to coincide with, and include all of, the Budget measures. The OBR should also scrutinise and challenge Government policy costings models throughout the year in order to certify policy costings ahead of fiscal events. For this to be done on a reasonable timetable, we would propose at least two months' notice be given to the OBR of the date of the Budget.
25. There is also the question of pre-Budget forecasts. The publication of the pre-Budget forecast on 14 June allowed you to establish the fiscal position that you had inherited. Its proximity to the Budget itself presented many problems, not least the burden in terms of work of producing a document so close to the Budget. (By necessity work on the Budget forecast overlapped with production of the pre-Budget forecast.) It also led to challenges in terms of attempts to identify the effects of the Budget on the economy. We assume that that was a unique experience.
26. However, we consider there is merit in having more than one forecast produced each year. We therefore propose that, irrespective of your decision whether or not to hold an autumn fiscal event, we should produce a forecast in the autumn. For a fiscal event, this would be akin to the Budget forecast, incorporating any newly announced policy changes; in the absence of a fiscal event, it would be akin to the pre-Budget forecast. It would come roughly halfway through the fiscal year and allow the OBR to comment on

the progress of the economy and the public finances against the previous (Budget) forecast and on the chances of meeting the mandate. Again, we would propose at least two months' notice for the production of this forecast

27. We propose that the OBR publish its annual sustainability report at the same time. If you also wish us to produce a pre-Budget forecast as in June of this year, we would ask for at least three months' notice. That would allow time for presentation of the OBR's forecast at least a month before the Budget. We believe that the question of whether the OBR should produce additional, intermediate forecasts is for you.
28. The Industry Act requires that the Treasury produce at least two economic forecasts a year. That requirement could be removed, or amended, as part of the legislation to establish the permanent OBR (although our proposal is consistent with the Industry Act). (In any case it requires amendment to transfer the duty on producing the economic forecast from the Treasury to the OBR.)

### Budget forecasts

29. You will be aware of the implications of the OBR's role in producing Budget forecasts but it may be helpful to give them a wider airing.
30. In the period leading up to the Budget officials were engaged in their usual role of providing advice on the mandate and on possible packages to achieve it while the OBR was producing forecasts which showed the effects on the economy and on the public finances of those packages. This had two consequences. The first was that the OBR became a central part of the policy decisions process while, in accordance with its Terms of Reference, it neither offered nor was asked for policy advice. The second was that some Treasury officials performed both roles, i.e. giving advice to the Chancellor and helping the OBR produce the forecasts. Prior to the establishment of the OBR it would have been quite normal for officials to be engaged in forecasting and policy advice but the OBR added a dimension of complexity.
31. We do not believe that this involved any conflict of interest. The duty of officials is to provide the best possible advice and to help provide the best possible forecasts. It is the Chancellor's responsibility to judge the quality of the advice and the forecasts and to use them to inform his policy decisions. We are, however, aware that the need to serve the OBR added significantly to the already heavy burden of work on the Treasury forecasters. A longer interval between forecasts would lessen, but not remove, this problem.
32. The role of the Treasury is outside our Terms of Reference, though we recognise that our proposals have implications for it. *Reconstruction* states "The Treasury would naturally retain the capacity to make internal forecasts of the economy and the effects of policy changes." We accept that and note that there may be a challenge for the Treasury in performing its role in advising the Chancellor and, under current arrangements, supporting the OBR. Apart from the work burden, mentioned above, we assume that Treasury officials will wish to reserve the right to advise the Chancellor if they believe that the OBR's forecasts are wrong.

33. The significant point for the OBR is that its role at the heart of Budget-making has implications for confidentiality, access to information and location. These are addressed in the section below on how the OBR should operate.

#### Sustainability analysis and research

34. We believe that the permanent OBR should continue to assess the scale of government liabilities and their fiscal and economic impact, through its own analysis and through commentary on relevant work produced across government and elsewhere, to increase transparency and inform fiscal policy.
35. With this in mind we propose that the OBR be required to produce an annual report on the long-term sustainability of the public finances, using on- and off-balance sheet information and forecasts. This should also include long-term fiscal projections for the public finances.
36. In addition, there is a range of macroeconomic and fiscal policy issues on which the OBR could focus further research. Much of this will be highly relevant for improving forecasting methodologies and processes. Undertaking activities broader than forecasting will also be important for building the reputation of the OBR, and ensuring it is an attractive place to work, and we recommend that the OBR should be involved in them.

#### Fiscal policy analysis

37. We raised, in the introduction, the question of the OBR's wider role in relation to the objective of producing well-designed fiscal policy. In this section we discuss the issues but do not make a proposal.
38. The emphasis on the removal of the risk of political interference in fiscal forecasts, which has provided your main reason for establishing the OBR, receives less attention in other countries where fiscal councils exist or are proposed. Outside the UK the emphasis is on the threats to good fiscal policy that can be produced by a reluctance by governments to take necessary but unpopular actions particularly in the approach to elections. The analogy with monetary policy is clear. The popularity is provided up-front and the pain is postponed (though it may thereby be increased).
39. Fiscal councils elsewhere are far more likely to offer general comments on the conduct of fiscal policy. In our Terms of Reference our tasks in relation to the Budget were strictly limited to those associated with forecasting and we have not commented on the choice of fiscal mandate. At the seminar many of those who attended were puzzled by the emphasis on forecasts, particularly short-term forecasts, and the exclusion of wider comments on fiscal rules, including the mandate.
40. There are arguments on both sides. It may be helpful to distinguish between fiscal sustainability and the mandate. Our discussion of sustainability in chapter 5 of our pre-Budget forecast provides a technical definition as well as a discussion of wider concepts of the term. The technical definition allows us to comment on whether the mandate is consistent with sustainability in the technical sense though we did not do so in the

Budget forecast. *Reconstruction* suggests that the OBR might perform that role. The question is whether you would wish the OBR to be a source of analysis and advice on such questions as the choice of economic indicator for the target (a flow or a stock? actual or cyclically adjusted?) and the date for its achievement.

41. A further consideration is that the kind of people one might hope to recruit to the OBR might be particularly interested and skilled in answering these types of questions and the quality of fiscal decision-making might benefit from their skills.
42. On the other hand, although the analogy is far from perfect, it has been a valuable feature of the arrangements for the MPC that it does not choose the target and is charged with the task of achieving it (though it retains discretion about the speed at which it attempts to return inflation to its target after it has moved away from it). It has been helpful for the OBR that we have been able to concentrate on the task of forecasting without having to concern ourselves with the suitability of the mandate.

## **How the OBR should operate**

### Analytical capacity

43. The pre-Budget and Budget forecasts were produced using the full forecasting resources of the Treasury, HMRC and DWP. In the circumstances there would have been no other way to carry out the tasks. We believe that this method worked extremely well. We were provided with excellent background material and all involved were willing, indeed keen, to explain the methods used. In addition, the top-down approach to economic forecasting applied in the Treasury helped us to comprehend and control the forecasts. But since we started on a forecasting round almost as soon as the OBR was established we had less time available than will be the case in the future. That does not prevent us from accepting full responsibility for the forecasts and the OBR will become more experienced with time.
44. We are also able to state, without reservation, that there was no ministerial involvement in the forecasts at any stage. However the fact that we were operating in the Treasury and relying on official resources has raised doubts about our independence in some quarters. The question of location is dealt with below. The question of the use of departmental, especially Treasury, resources is more difficult. The scepticism this process produced is unfortunate since, in our view, this is the best way for us to perform our task. Detailed forecasts of receipts and expenditure are necessary for the Budget and few outsiders appreciate the complexity of fiscal forecasting. At its peak the process involves more than 100 people in the Treasury, HMRC and DWP. It is not a full-time job for most of those involved. Between forecasts, the officials are engaged in such tasks as policy analysis and advice and monitoring of fiscal flows. It would not be practical to duplicate the forecasting activities within the OBR. The cost would be unacceptably high and there would be a severe peak-flow problem, given that forecasting is an intermittent activity. Further, those currently engaged in forecasting use the skills and knowledge they gain on their other activities: there are synergies in developing expertise that can be applied to both forecasting and other analysis.

45. For these reasons we rule out wholesale duplication. That means that either the OBR continues to rely on official resources as now, while accepting full responsibility for all judgements and scrutinising all policy costings, or its forecasting task is changed. For example, it might just produce aggregate fiscal forecasts without taking responsibility for the full details of revenue and expenditure as published with the Budget. This could lead to consistency issues with policy costings and other problems. We do not believe that this approach would be consistent with your expressed wish to use the OBR as the source of the Budget forecasts.
46. The way forward therefore would appear to be to build on the system used for the pre-Budget and Budget forecasts but to reinforce the OBR's technical independence. Since the OBR is responsible for producing the forecasts it would be reasonable for those at the core of the forecasting process to be part of it. That can be achieved by moving a number of posts from the Treasury to the OBR such that core tasks can be fully controlled and coordinated within the OBR.

#### People and internal governance

47. The interim OBR comprises ourselves (the Budget Responsibility Committee), and an eight-person secretariat consisting of Treasury employees redeployed to the OBR. As explained above, it was a small team that relied heavily on the Treasury's existing analytical and forecasting capacities.
48. We have noted that concerns have been raised on the interim OBR's reliance on Treasury officials for its staff. Attendees at our seminar encouraged us to consider the impact on actual or perceived independence of employing Treasury civil servants within the OBR.
49. We agree that it is important to bring in external people, both for reasons of independence and expertise. The OBR is an independent organisation that should seek to recruit the best available talent for the functions it needs to perform. Engagement with those with an academic background, for example, on a full or part time basis, would provide a valuable contribution.
50. We also believe, however, that it is necessary and beneficial for the OBR's staff to include at least some officials from the Treasury. The knowledge and experience of Treasury staff in forecasting the public finances is invaluable to the OBR and should be used so far as reasonable. Further, if the OBR is to play a role in the production of Budgets – which is an implication of our recommendation that it produces the Budget forecast – then it will need links with the department. Interchange between the OBR and other government forecasters and analysts stands to benefit all parties. We might expect that the balance of Treasury to non-Treasury staff would evolve over time.
51. Not all the roles in the OBR will need to be full-time. While forecasting is a full-time task in the run up to a fiscal event, people preparing other research and analysis will not necessarily have to work on a full-time basis. This may attract a wider range of experts to the organisation.
52. In terms of the OBR's leadership, we propose that the model of a three-person Budget Responsibility Committee be retained. For the interim OBR, we have taken both the

forecasting and management decisions. This has worked well. We therefore recommend that the BRC should be responsible for making the key decisions in the preparation of the forecasts and take the lead and be responsible for all other research and analysis produced by the OBR. You may also wish to consider whether a non-executive presence at the OBR would help challenge and support the BRC in the performance of its role.

53. When you advertise for our successors you will want to consider how the terms of appointment can promote independence and encourage candidates of calibre to apply. Permanent Budget Responsibility Committee members should be recruited through a fair and open process. We believe Parliament should have a role in that process, similar to the role that the Treasury Select Committee has in scrutinising members of the Monetary Policy Committee.

### Establishing independence

54. The OBR's effectiveness rests on it being credibly independent. We have therefore considered what steps need to be taken in order to ensure such independence.
55. The Terms of Reference that we agreed for the interim OBR described independence through our autonomy over the production of forecasts and what to publish. We were given the freedom to publish information relevant to our remit without prior ministerial oversight or approval and were provided with unrestricted access to staff, systems and information relevant to discharging these responsibilities. These factors were important and we recommend they are maintained for the permanent OBR and strengthened through legislation.
56. The OBR's relationship with the Treasury will be key in determining the OBR's independence. The interim OBR has had a close working relationship with the Treasury, however we reiterate there was no ministerial involvement in the forecasts. This was necessary to deliver the forecasts to the timetable dictated by the Budget. As noted above, we recommend that the OBR develops a greater technical capacity, which should reduce its reliance on the Treasury for analytical resources. However, the OBR will continue to require information from the Treasury. Central government will usually have the best data on which to base a forecast for the public finances. The OBR should fully harness such information in producing its forecasts and the Treasury will need to ensure it is made available. We recommend that the OBR and the Treasury formalise their working relationship through a Memorandum of Understanding.
57. The issue of location has been raised on a number of occasions in public debate on the OBR. We recommend that arrangements are made to move the OBR out of the Treasury building. We emphasise, however, the need to have a close working relationship with the Treasury and other government departments if the OBR is to produce the Budget forecast. It would have been difficult to produce the pre-Budget and Budget forecasts if we had been located a significant distance away from the Treasury.
58. There are many other ways to secure the independence of the OBR. We have discussed the merits of bringing in external people. In particular, the OBR should manage responsibility for its communication with the media and others and employ its own communications specialist to ensure public understanding of its forecasts and other

publications. In addition, the OBR should be able to decide how to focus its time and manage its budget, subject to fulfilling the minimum requirement of producing the forecast.

59. It is to be hoped that the changed arrangements for staffing, a growing experience in fiscal forecasting for members of the Budget Responsibility Committee, a changed location and evidence from the forecasts themselves will reduce any unfounded suspicions relating to independence that are attached to the current arrangements.

#### Institutional framework and accountability

60. The appropriate institutional model for the OBR should follow from the functions it will perform and the necessity of establishing its independence
61. There are, broadly, three options: an Office or agency of the Treasury, an Executive Non-Departmental Public Body (NDPB), or a Non-ministerial department (NMD). We propose that the institutional model you select for the OBR should reflect your intention not to be involved in its decision-making and to support it in the performance of its functions. Its independent operation must be supported by an ability to manage its own resources. As we have seen, the public perception of its independence and political impartiality is also important, and the institutional arrangement for the OBR should provide some assurance of this.
62. Another key consideration is people. In our view the effective performance of the OBR will in large part depend on the people it is able to attract and employ, and on a close working relationship with the Treasury. Establishing the OBR as a civil service employer, for example, would facilitate interchange of staff between the OBR and government departments. Ensuring information can flow between the OBR and the rest of government will also be important.
63. In terms of funding, we understand that the scope for any public sector body funded by the tax-payer to achieve financial independence from Government is rightly limited. Transparency over the funding of the OBR will be important and Parliamentary scrutiny may be an appropriate means of safeguarding adequate resources for the OBR.
64. We do not make a specific recommendation on the most appropriate institutional model at this stage as the decision will depend on the detailed arrangements you put in place. We believe that the operational independence of the OBR is best achieved through clarity about its governance, accountability and responsibilities and that this can be achieved on any institutional model.
65. Whichever model you select, appropriate accountability arrangements should be put in place. The close links between the work of the OBR and the Treasury's executive functions mean that the OBR should be accountable to Parliament through the Chancellor.
66. We have noted previously your intention that the OBR should enhance the ability of the Parliament to hold the Government to account for its fiscal policy. We therefore suggest

that the OBR should report to Parliament (as well as to the Chancellor) and be prepared to explain its actions to Parliament (for example, through Select Committees).

67. In any case, the OBR should open itself to the same level of Parliamentary scrutiny that ministers do now in relation to forecasts.

#### Legislation

68. You intend to legislate for the OBR and we support this intention. A legislative underpinning for the OBR's roles and responsibilities, independence and accountability arrangements will help set expectations and provide a stable framework within which the body can operate in the future.

## **Establishing the permanent Office for Budget Responsibility: planning for an independent fiscal institution**

### **Summary of seminar**

On 17 June the interim Office for Budget Responsibility invited interested experts to a seminar to discuss how the OBR should be established on a permanent basis. The seminar was held under “Chatham House” rules and the summary below does not attribute comments to participants. A list of attendees is included at the end of the summary.

#### Objectives and remit

- There was discussion of the overarching purpose of the OBR.
- Many attendees spoke about what the appropriate remit of the OBR should be. Some felt that the OBR should have a relatively broad remit, encompassing a broad range of tasks, while others argued for a narrowly defined purpose, focusing on a small number of specific outputs.
- Regardless of the scope of remit, the importance of clear objectives for the OBR was emphasised by a number of contributors. Some participants made the case for a set of principles to guide the OBR’s work (suggestions included transparency and impartiality).
- Participants argued that the OBR would have a key role in raising the bar of public debate on fiscal and macroeconomic issues. Some noted that the OBR’s success would be measured by how it improved the quality of public debate on fiscal and economic issues, for example through research and analysis. They argued it was important that the OBR’s success not be judged solely by the accuracy of its forecasts, given the uncertainty surrounding forecasting.
- For this reason, participants argued that there was merit in the OBR having a permissive remit, allowing it to engage in a broader set of analysis. In particular, attendees suggested fiscal sustainability should be a lead candidate for analysis by the OBR.

#### Roles and responsibilities

- Participants agreed that the OBR should continue to produce forecasts for the economy and public finances. Questions were raised about the appropriate frequency of forecasts. Some argued that the forecast frequency should be increased to beyond twice a year. Others argued that the OBR should concentrate on analysing medium- and long-term trends and should not commit the major part of its resources to frequent forecasting.
- Consistent with the discussion on remit and objectives, many contributions were made on the role that the OBR should have in producing sustainability analysis. In addition, the production of broader research and analysis was also discussed.

- Other potential roles were raised. These included monitoring the public finances, providing information on accounting issues relevant to fiscal policy, producing scenario analysis and making assessments of fiscal risk.
- Participants argued both in favour and against whether the OBR should comment or advise on the target for fiscal policy (the fiscal mandate). Some saw commentary or advice on the appropriate path of debt and deficit reduction as desirable. It was also noted that having a role in assessing fiscal sustainability might make it difficult to avoid commenting on the mandate, at least implicitly.
- It was generally agreed, however, that there were some areas of fiscal policy that the OBR should steer away from. One participant explained the advantages of the Bank of England not commenting on the inflation target and said there may be a fiscal parallel with the OBR. Attendees broadly accepted that the OBR should not be involved in decisions on taxation and public expenditure, though some thought it should have the discretion to comment on the economic and fiscal consequences of policy. A question was also raised on whether the OBR should comment on any expected monetary policy response to fiscal policy.

### Analytical capacity

- Many attendees believed that the OBR should expand its analytical capacity so that it could reduce its reliance on Treasury resources to produce forecasts.
- There were many different views on the degree to which it was appropriate for the OBR to use Treasury resources. Some argued that the detailed nature of fiscal forecasts meant it could be helpful to use the Treasury's expertise in the public finances. Others considered that it would be preferable to trade-off forecast accuracy for operational independence.
- There was no consensus view on the appropriate size of the OBR, although a link to independence was made by a number of contributors. Some participants noted that it would be possible for the OBR to grow over time and for its analytical capacity to evolve in line with its size.
- A number of participants cautioned against overly constraining the size of the OBR at this stage, as this might damage credibility in the long term.
- Attendees accepted that the Treasury would need to retain some forecasting capacity in order to meet ministers' requests for advice. Participants commented that this might mean a degree of inevitable and potentially desirable duplication of resource between the OBR and the Treasury.

### Independence

- In general, attendees agreed that independence was of critical importance for the OBR and there was significant discussion of how this might best be achieved.
- Attendees considered that it was important for the OBR to "own" the forecasts, and to be able to demonstrate it had complete control over their production.

- Strong governance arrangements, financial autonomy and appropriate terms of appointment were all raised as potential means for providing independence. Although participants accepted that it was an imperfect proxy for independence, many were of the view that the OBR should not be located in the Treasury building.

### People

- Attendees emphasised the importance of being able to attract high-calibre staff and leadership to the OBR. The link was made between this requirement and the appropriate remit of the OBR.
- Participants encouraged the OBR to seek out people who could undertake research on relevant macroeconomic and fiscal issues. This research could be done on either a part-time or full-time basis. Secondment arrangements with other institutions and the potential for outsourcing and partnerships were also discussed.

### Institutional framework

- The importance of certain rights and freedoms was commented on by a number of attendees. Access to data, security of resources and the freedom to comment on areas within the OBR's remit were all noted.
- The role of Parliament was discussed. Some participants suggested the OBR should be accountable to Parliament for its work. Others questioned whether the OBR could provide research to Parliament.
- The benefits of legislative underpinnings were also raised. A number of attendees argued in favour of a strong legislative basis.

## Attendees

Alan Budd, Office for Budget Responsibility  
Geoffrey Dicks, Office for Budget Responsibility  
Graham Parker, Office for Budget Responsibility

Malcolm Barr, JP Morgan  
Robert Barrie, Credit Suisse  
Sam Beckett, HM Treasury  
Tim Besley, LSE  
Terry Burns, Santander  
Charlie Burton, Oxford Economic Forecasting  
Charles Davis, CEBR  
Robert Chote, IFS  
Alan Clarke, BNP Paribas  
Bronwyn Curtis, HSBC  
Spencer Dale, Bank of England  
Frank Eich, Pension Corporation  
Robin Feith, ICAEW  
Gabriele Giudice, European Commission  
Joe Grice, ONS  
Simon Hayes, Barcap  
Michael Izza, ICAEW  
Michael Kell, NAO  
Simon Kirby, NIESR  
George Kopits, Hungarian Fiscal Council  
Manmohan Singh Kumar, IMF  
Anna Leach, CBI  
Trevor Llanwarne, Government Actuary's Department  
Jil Matheson, ONS  
Julian McCrae, Institute for Government  
David Miles, MPC  
Nicholas Monck  
Ian Mulheirn, Social Market Foundation  
Eve Samson, Treasury Select Committee  
Michael Saunders, Citi  
Andrew Sentance, MPC  
Peter Spencer, ITEM Club  
Robert Stheeman, DMO  
Douglas Sutherland, OECD  
Ross Walker, RBS  
Peter Warburton, Economic Perspectives  
Martin Weale, NIESR  
Peter Westaway, Nomura  
Robert Woods, HM Treasury  
Simon Wren-Lewis, University of Oxford